Reps Nunes, Ryan and Issa seek improved accounting of public pension debt

Washington, D.C. – Today, Representative Devin Nunes (R-CA), Rep. Paul Ryan (R-WI), and Rep. Darrell Issa (R-CA) introduced the Public Employee Pension Transparency Act (text available here). The bill, which provides enhanced transparency for state and local pensions, also establishes a clear federal prohibition on any future public pension bailouts by the federal government.

“As we speak, lucrative pension promises are being made to public employees that taxpayers simply cannot afford. The plans themselves admit to more than a $1 trillion in unfunded liabilities,” said Rep. Devin Nunes. “Unfortunately, the true level of unfunded liabilities associated with these plans – perhaps more than $3 trillion – is being hidden thanks to unrealistic accounting standards.”

Congressman Paul Ryan, incoming Budget Committee Chairman, offered the following statement regarding the Public Employee Pension Transparency Act:

“We need to ensure that state and local governments are accurate and honest in detailing their financial liabilities, including the cost of pension plans for public employees. The Public Employee Pension Transparency Act will make government more accountable to taxpayers by shining a light on the financial soundness and unfunded obligations associated with these plans and I’m honored to join Representatives Nunes and Issa in sponsoring this common sense legislation.”

Congressman Darrell Issa, Incoming Chairman of the Oversight and Government Reform Committee said:

“The American people have a right to know the truth about the unfunded liabilities being run-up by state and local pensions. Quite frankly, if they have nothing to hide, there’s no reason why the states and local governments who control public employee pensions should not embrace this effort to ensure that the taxpayers have a more transparent accounting of the true nature of pension liabilities.”

Most state and local governments offer their employees defined benefit pension plans. These plans currently promise retirement pensions to about 20 million active employees, while another seven million retirees and their dependants are receiving benefits today.

According to leading financial experts, the enormous debt reported by public employee pensions fails to convey the true size of the debt confronting taxpayers because public pensions are able to calculate their liabilities using unreasonably high discount rates. In many instances, they also distort fair market value of assets in order to hide debt.

The Public Employee Pension Transparency Act will establish new transparency rules, allowing plans to report their existing financial data but also requiring them to report their methods and assumptions. Public employee pension plans will also have to report their liabilities using a uniform accounting standard that provide realistic rates of return and tie assets to more reasonable fair market valuations.

State and local officials should welcome increased public pension transparency as a tool to increase public finance soundness. However, plan sponsors may decide against reporting this information. To incentivize transparency, the bill links the creation of new federally subsidized debt at the state and local level with an honest accounting of current public pension liabilities. Failure to report will result in the suspension of all federal tax-exempt bonding authority for the jurisdiction(s) whose employees are covered by the non-compliant plan.

“With few real disclosure requirements, public employee pension plans are at even further risk of not only jeopardizing retirement packages for active and retired employees, but also putting taxpayers in grave danger. This bill will provide a much-needed dose of financial transparency,” said Jordan Forbes, of the National Taxpayers Union.

Independent studies demonstrate that public employee pensions had approximately $1.94 trillion set aside to pay retirement benefits promised to government workers as of 2008. However, these pensions have liabilities of $5.17 trillion, which means that they are underfunded by $3.23 trillion. Ten states including Oklahoma, Louisiana, Illinois, New Jersey, Connecticut, Arkansas, West Virginia, Kentucky, Hawaii, and Indiana are projected to run out of pension funds by 2020, the vast majority of states will have exhausted their pension funds by 2030.

“State and local governments’ empty coffers should not be ignored, nor should they become dependent on federal bailouts to ensure the fiscal soundness of their pension plans. Increasing pension fund transparency will make lawmakers more accountable to taxpayers and compel them to deal with the reality of their fiscal crisis,” said Thomas Schatz, President of Citizens Against Government Waste.

“By requiring accurate accounting, disclosure online and certifying the end of federal bailouts, the Public Employee Pension Transparency Act would address the underlying deficiencies that have allowed states and municipalities to be fiscally reckless with their pension plans,” said Grover Norquist, President of Americans for Tax Reform.

Support for the Public Employee Pension Transparency Act includes the Americans for Tax Reform, Americans for Prosperity, American Conservative Union, Citizens Against Government Waste, National Taxpayers Union, Americans for Limited Government, and the U.S. Chamber of Commerce.

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